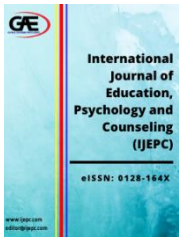
International Journal of Education, Psychology and Counseling
IJEPC
EISSN : 0128-164X
Volume 9 Issue 55 (September 2024) PP. 810-824
DOI 10.35631/IJEPC.955054



INTERNATIONAL JOURNAL OF EDUCATION, PSYCHOLOGY AND COUNSELLING (IJEPC)
www.ijepc.com

THE NEXUS BETWEEN ORGANIZATIONAL CULTURE AND ORGANIZATIONAL PERFORMANCE

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Article Info:

Article history:
Received date: 30.07.2024
Revised date: 15.08.2024
Accepted date: 25.09.2024
Published date: 30.09.2024

To cite this document:

Ismail, F., Chan, S. W., & Salahudin, S. N. (2024). The Nexus Between Organizational Culture And Organizational Performance. *International Journal of Education, Psychology and Counseling, 9* (55), 810-824.

DOI: 10.35631/IJEPC.955054.

Abstract:

Organizational culture plays a crucial role in shaping how organizations function, influencing employee behavior, decision-making, and overall organizational performance. As businesses operate in increasingly dynamic environments, understanding how different cultural frameworks impact performance has become a key area of interest. This study examines the impact of organizational culture on performance within the Malaysian automotive industry, focusing on hierarchy, clan, adhocracy, and market cultures. Despite significant research, there are still gaps in understanding how these specific cultural types influence performance in fast-paced industries. Targeting 112 middle-level managers from Perodua, Proton, Toyota, and Honda Malaysia, the study utilized Cameron and Quinn's Competing Values Framework to assess non-financial performance indicators such as customer satisfaction, service quality, and employee satisfaction. The findings reveal that hierarchy culture negatively impacts organizational performance by stifling innovation, while adhocracy culture enhances performance through flexibility and creativity. Market culture also positively influences performance by promoting competition and goal achievement. However, clan culture did not show a significant link to performance, indicating that internal cohesion may not always lead to improved results in competitive environments. The study highlights the need for organizations to align their culture with external challenges, encouraging more adaptive and innovative cultures, and suggests further research across various industries to deepen understanding.

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Keywords:

Organizational Culture, Organizational Performance. Culture, Performance

Introduction

The influence of organizational culture on performance has become an area of study that is gaining increasing attention among management researchers and practitioners, as it plays a critical role in determining the long-term success of an organization. Organizational culture, which includes the collective values, beliefs, and practices held by organizational members, shapes how individuals in the organization interact, make decisions, and respond to environmental changes (Paais & Pattiruhu, 2020). Different types of culture, such as hierarchy, clan, adhocracy, and market, each have unique and significant effects on organizational performance, including the ability to innovate, adapt to change, and achieve set goals. Issues concerning organizational performance are particularly relevant in Malaysia, where organizations face challenges related to competition, innovation, and workforce efficiency. For example, Malaysian companies in various industries have been criticized for lacking the agility and adaptability required to compete in a globalized economy (Iskamto, 2023). Similar issues exist globally, where organizations are under constant pressure to improve their performance metrics, including financial stability, employee engagement, and customer satisfaction.

Studies by Denison and Mishra (1995) have shown that organizational culture affects not only employee satisfaction and commitment but also financial performance, operational effectiveness, and overall competitiveness. Understanding how these different types of culture affect organizational performance is crucial for leaders seeking to align internal practices with broader strategic goals (Marampa, Khananda, & Anggraeni, 2021). Leaders must ensure that the organizational culture is aligned with the industry context, structure, and strategic objectives. With the right approach, culture can drive innovation, efficiency, and long-term success, while a misaligned culture can lead to poor performance and loss of competitiveness (Iskamto, 2023).In hierarchy cultures, a structured and controlled environment focuses on stability, efficiency, and formal procedures. While this culture promotes operational consistency, it may hinder innovation and adaptation, especially in dynamic markets (Gordon & DiTomaso, 1992). Clan culture, on the other hand, emphasizes a family-like atmosphere, fostering employee satisfaction and loyalty. However, its strong internal focus may detract from external competitiveness (Szymańska, 2016).

Adhocracy culture is characterized by flexibility and innovation, which can lead to superior performance in rapidly changing industries. However, its emphasis on experimentation may cause instability if not managed properly (Chesbrough, 2003). Market culture drives competitiveness and goal achievement, contributing to better financial performance. However, this focus on external results may compromise internal cohesion (Xenikou & Simosi, 2006).Given that each type of organizational culture has its strengths and weaknesses, there is no universally superior culture. The effectiveness of each culture depends on the context, including the industry, market conditions, and strategic goals (Naranjo-Valencia et al., 2016). In Malaysia, as in other regions, aligning cultural practices with strategic objectives is crucial for enhancing performance.Data Analysis in studies such as these typically involves the use of quantitative methods like surveys and regression analysis. By examining the relationship

International Journal of Education, Psychology and Counseling
IJEPC
EISSN : 0128-164X
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between different culture types and performance indicators, researchers can draw conclusions about which cultural traits are most beneficial in specific contexts. This study will employ such analysis to understand the impact of culture on organizational performance in Malaysia's context.

Literature Review

Organizational Culture

Organizational culture is a concept with diverse definitions and interpretations among researchers (Siswadi et al., 2023). According to Hofstede (1980), organizational culture is the shared indoctrination of beliefs that distinguishes members of an organization. This culture is shaped by the shared values, beliefs, and norms of employees, forming a common identity within the organization (Azeem et al., 2021). Despite global operations increasing cultural diversity, organizational culture remains a longstanding concept, influencing the behavior of employees through a collective understanding of values and principles (Cartwright & Cooper, 1990; Jacques, 1951). Foster-Fishman and Keys (1997) described organizational culture as a trend in team behavior shaped by shared understanding, while Deshpande and Webster (1989) emphasized that organizational culture guides employees' behavior within the organization through common principles and attitudes.

Hofstede's model (1997) of organizational culture identifies four elements: symbols, heroes, rituals, and values. These elements, depicted in Hofstede's "onion diagram," highlight that the deepest level of culture comprises values linked to ethical and moral codes, guiding what should be done within an organization (Brown, 1988). Rituals involve socially indispensable activities, heroes are individuals admired for their valued characteristics, and symbols are gestures, objects, or actions that convey broader meanings within the organization. Similarly, Johnson, Scholes, and Whittington's (1999) cultural web model illustrate seven interlinked elements—routine, rituals, stories, symbols, control systems, power structures, and organizational structure—that collectively shape an organization's culture. These frameworks emphasize that organizational culture is not only about shared values but also about how these values impact the daily operations and interactions within an organization (Zhou & Kwon, 2020).

Various researchers have proposed different typologies of organizational culture. For instance, Denison and Mishra (1995) identified four culture types: consistency, adaptability, mission, and involvement. Daft (2014) suggested adaptability, clan, achievement, and bureaucratic cultures, while Wallach (1983) introduced bureaucratic, innovative, and supportive cultures. Cameron et al. (1991) presented the widely recognized four types: market, hierarchy, clan, and adhocracy cultures, which have been frequently used in research. These typologies reflect that organizational outcomes are heavily influenced by the specific culture type, which embodies distinct attributes and values that drive organizational performance (Ketchen et al., 1997; Ogbonna & Harris, 2000; Deshpande et al., 1993; Nguyen, Yandi & Mahaputra, 2020; Paais & Pattiruhu, 2020). Cameron and Quinn's (2005) Competing Values Framework, based on these cultural types, categorizes organizations along two dimensions: internal integration versus external focus and flexibility versus control. This framework highlights how organizations with internal integration and organic structures tend to develop clan cultures, while those with a mechanistic structure and internal focus exhibit hierarchy cultures (Zeb et al., 2021). Adhocracy cultures emerge in organizations with an external focus and organic

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structure, promoting innovation and flexibility, while market cultures prioritize competitiveness and external achievement within a mechanistic framework (Cameron & Quinn, 1999; Mohammadi et al., 2010; Aktas et al., 2011). This framework is widely used in research to analyze and describe the congruence of different organizational cultural profiles with organizational goals, particularly in the context of innovation (Yu & Nengquan, 2009; Buschgens, Bausch & Balkin, 2013; Dębski et al., 2020).

In conclusion, organizational culture is a multifaceted construct that influences an organization's internal dynamics and its ability to achieve external objectives. The different types of organizational culture—hierarchy, clan, adhocracy, and market—each present unique attributes that can either support or hinder an organization's performance, depending on how well they align with the organization's strategic goals and external environment. Understanding these cultural dynamics is crucial for managers and leaders to create an environment that fosters the desired organizational outcomes, whether it be stability, innovation, collaboration, or competitiveness.

Organizational Performance

Organizational performance is a multidimensional concept that has been extensively studied and variously conceptualized (Migdadi, 2022). Ostroff and Bowen (2000) highlighted that organizational performance encompasses different measures, including human resource levels (individual or group performance), organizational levels (productivity, quality, service), financial or accounting levels, and stock market performance. At the organizational level, performance is considered a reflection of effective strategy implementation, where appropriate strategies lead to successful outcomes (Appelbaum et al., 2003; Gupta, Crilly & Greckhamer, 2020). Schermerhorn et al. (2000) suggested that organizational performance results from the effective interaction of organizational activities and resources, emphasizing the importance of aligning employee capabilities with strategic goals to achieve desired results.

Organizational performance involves linking the capabilities and skills of employees to the strategic objectives of the organization, which are measured through performance indicators (Popova & Sharpanskykh, 2010; Drago et al., 2022). These indicators, whether financial or non-financial, serve as benchmarks to assess the level of performance achieved compared to target performance (Schulte et al., 2009). Financial measures such as net profit, return on investment (ROI), and profitability are commonly used to assess organizational performance (Božić et al., 2023). For example, Mutua et al. (2012) and Guest (1997) identified financial measures such as net profit, labor turnover, and ROI as key indicators of performance. These measures help organizations evaluate their success in achieving financial stability and growth. Non-financial measures of organizational performance have also gained prominence in recent years (Pillai & Sivathanu, 2022). Kaplan and Norton (1992) emphasized the importance of considering both short-term and long-term objectives, as well as internal and external measures, in assessing organizational performance. Non-financial measures such as customer satisfaction, employee satisfaction, and service quality have been widely used in research to evaluate performance (Slywotzky et al., 2000; Sin et al., 2005; Yang, 2014; Zarzycka & Krasodomska, 2022). These measures are critical for assessing an organization's effectiveness in areas that directly impact customer relationships and operational excellence.

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Customer satisfaction is a key non-financial measure that significantly influences organizational performance (AlMujaini et al., 2021). Organizations are increasingly focusing on customer needs and satisfaction as a driving force behind their quality goals (Jyoti & Sharma, 2012; Conţu, 2020). Studies have shown a positive relationship between customer satisfaction and firm profitability, customer retention, and overall business success (Gomez et al., 2003; Chi & Gursoy, 2009). Similarly, service quality is another crucial non-financial measure that differentiates businesses in competitive markets. Superior service quality not only enhances customer satisfaction but also fosters long-term customer loyalty, contributing positively to organizational performance (Levesque & McDougall, 1996; Gronroos, 2000). Employee satisfaction is also a vital non-financial measure of organizational performance (Chi et al., 2023). Satisfied employees are more likely to be motivated, productive, and committed to fulfilling customer needs effectively (Jyoti & Sharma, 2012). Employee satisfaction can be intrinsic (related to job autonomy, growth opportunities, and recognition) or extrinsic (related to salary, work environment, and bonuses) (Herzberg et al., 1957). Organizations that prioritize employee satisfaction tend to achieve higher levels of organizational performance, as satisfied employees contribute to customer satisfaction and overall business success (Sutianingsih, Budiyanto & Suwitho, 2023; Jung & Yoon, 2013; Brown & Lam, 2008).

Hypothesis Development

Extensive research has explored the connection between organizational culture and performance, with significant attention given to this relationship since the 1980s. Researchers like Kotter and Heskett (1992) have emphasized that organizational culture influences economic performance, with their study of over 200 companies highlighting the impact of shared values and unwritten rules. Similarly, Deal and Kennedy (1982) proposed one of the first models of organizational culture, demonstrating how strong cultures can drive productivity and future success. Collins and Porras (1994) further supported this view, finding that a strong organizational culture was a key factor in the top performance of 18 leading companies. While these studies provide substantial evidence, some researchers, such as Yesil and Kaya (2013), Akpa et al. (2021) and Nguyen et al. (2023), argue that the link between culture and performance is not universally established, indicating a need for further investigation. Hierarchical culture, characterized by its focus on internal integration and mechanistic structures, has often been criticized for limiting an organization's ability to respond to external changes (Strengers et al., 2022). Denison and Mishra (1995) argued that hierarchical cultures, which emphasize stability and control, tend to resist change and adaptation, ultimately hindering organizational performance. This view is supported by studies such as those by Berglund-Snodgrass, Fred & Mukhtar-Landgren (2023) and Gordon & DiTomaso (1992), which found that organizations valuing adaptability over stability generally perform better. The bureaucratic nature of hierarchical culture, as described by Reddin (1988), can slow decision-making processes and negatively impact performance. Based on these findings, the following hypothesis is proposed:

H_1: Hierarchy culture negatively affects organizational performance.

Conversely, clan culture, which emphasizes teamwork, employee involvement, and loyalty, is generally associated with positive performance outcomes. Research by Petty et al. (1995), Faerman (2009) and Radu (2023) has shown that cultures promoting cooperation and a sense of belonging contribute to better performance. Fekete and Borcskei (2011) and Strengers et al. (2022) found that clan culture is positively related to financial performance, attributing this to the culture's focus on employee commitment and care. Additionally, studies by Denison and

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Mishra (1995) and Gordon and DiTomaso (1992) support the positive relationship between clan culture and performance, highlighting the role of employee involvement in fostering psychological ownership and commitment to organizational goals. Based on this evidence, the following hypothesis is proposed:
H_2: Clan culture positively affects organizational performance.

Adhocracy culture, known for its emphasis on innovation, adaptability, and risk-taking, has been linked to enhanced organizational performance. Tseng (2010) described organizations with adhocracy cultures as entrepreneurial, dynamic, and creative, characteristics that align with external demands and opportunities. Research by Calori and Sarnin (1991), Ogbonna and Harris (2000), Strengers et al. (2022) and Noone, Lin & Sharma (2024) supports the positive impact of adhocracy culture on performance, noting that values of adaptability and innovation are closely related to growth and competitiveness. Studies by Denison and Mishra (1995) and Fey and Denison (2003) further confirm the positive effects of adhocracy culture on performance outcomes. Based on this discussion, the following hypothesis is proposed:
H_3: Adhocracy culture positively affects organizational performance.

Market culture, which is externally oriented and emphasizes control, stability, and competitiveness, is also associated with positive performance outcomes. Sanz-Valle et al. (2011) noted that market culture values goal achievement and efficiency, playing a crucial role in adapting organizations to their external environments. Han et al. (1998) and Xenikou and Simosi (2006) found that market-oriented cultures facilitate organizational innovation and are positively related to performance. Fekete and Borcskei (2011) also observed that market culture positively affects financial performance by emphasizing effectiveness and competitiveness. Empirical research consistently supports the positive relationship between market culture and organizational performance (Akpa, Asikhia & Nneji, 2021; Xanthopoulou, Sahinidis & Bakaki, 2022). Based on this evidence, the following hypothesis is proposed:
H_4: Market culture positively affects organizational performance.

Methodology

The study focused on understanding the relationship between organizational culture and organizational performance within the context of Malaysia's automobile manufacturing industry. The research targeted managerial-level employees in Four major companies—Perodua, Proton Toyota and Honda Malaysia—due to their critical roles in shaping and understanding organizational culture and its impact on performance. The managers' insights were deemed valuable because of their hierarchical positions and their direct involvement in implementing and observing cultural practices within their organizations (Hult et al., 2004; Cameron and Quinn, 2005).The study employed the Competing Values Framework (CVF) by Cameron and Quinn (2005) to measure organizational culture. This framework identifies four types of organizational culture: hierarchy, clan, adhocracy, and market culture. Each type was evaluated to determine its prevalence and influence on organizational performance, specifically focusing on non-financial performance metrics such as customer satisfaction, service quality, and employee satisfaction. These dimensions were selected to provide a comprehensive view of how different cultural elements contribute to overall organizational effectiveness. A quantitative approach was used, with data collected through a survey method. The survey was distributed to 112 middle-level managers across the selected companies, ensuring a representative sample of the target population. The use of a proportionate random sampling procedure further ensured that the sample accurately reflected the distribution of managers

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within the industry, which was divided into four key regions: Kuala Lumpur, Selangor, Penang and Johor Bahru. This sampling strategy was chosen to capture the diversity of experiences and perspectives within the industry (Naqshbandi et al., 2015; Rezaei et al., 2018).

Result and Finding

The current study proposed several hypotheses to test the relationship between different types of organizational culture and organizational performance. Specifically, the study examined how hierarchy culture (HC), clan culture (CC), adhocracy culture (AC), and market culture (MC) influence organizational performance (OP).

Hierarchy Culture and Organizational Performance (H_1)

The hypothesis (H_1) states, "Hierarchy culture negatively affects organizational performance." The results of the structural model, as presented in Table 4.1, show that the path coefficient for HC→OP was reported as -0.322, with a t-value of 5.985, which exceeds the threshold value of 1.99. The p-value was reported as 0.000, which is considered significant at any value lower than 0.05. The empirical results indicated that the hypothesis H_1 is accepted, establishing a negative relationship between hierarchy culture and organizational performance. The findings of this study are supported and share similar results with the research conducted by Omerzel (2020) where it was found that hierarchical cultures, which prioritize control and stability, tend to hinder innovation and organizational agility, both critical factors for improving performance in today's fast-paced business environments. Al-Dahshan et al. (2021) also share the same research findings which showed that hierarchy-based organizations struggle with employee engagement, leading to lower productivity and overall performance. Additionally, Chuang and Tang (2022) reported that organizations with rigid hierarchical structures often fail to adapt to environmental changes, which negatively impacts organizational effectiveness and performance.

Clan Culture and Organizational Performance (H_2)

The hypothesis (H_2) states, "Clan culture positively affects organizational performance." The results indicate that the path coefficient for CC→OP was reported as -0.056, with a t-value of 0.616, which is below the threshold value of 1.99. The p-value was reported as 0.559, which is considered insignificant at any value higher than 0.05. The empirical results indicated that the hypothesis H_2 is rejected, meaning that no significant relationship between clan culture and organizational performance was established. Several recent studies have reported similar results as in the research conducted by Ahmed et al. (2021) found that while clan culture promotes collaboration and employee well-being, it does not always translate into improved organizational performance, especially in highly competitive or rapidly changing environments. Similarly, Lee and Hong (2022) observed that clan culture, which emphasizes internal focus and flexibility, may lack the necessary strategic direction and performance metrics needed for significant improvements in organizational outcomes. Sharma and Gupta (2023) also found that clan culture's focus on employee satisfaction and cohesion does not necessarily correlate with measurable organizational performance improvements, especially when external market demands are not aligned with internal cultural values.

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Table 1: Table of Hypothesis Testing

Path	Path Coefficient	SE	T Statistics	P Values	2.5%	97.5%	Result
HC ▶ OP	-0.322	0.052	5.985	0.000	-0.416	-0.212	Accepted
CC ▶ OP	-0.056	0.079	0.616	0.559	-0.214	0.118	Rejected
AC ▶ OP	0.411	0.080	3.878	0.000	0.162	0.488	Accepted
MC ▶ OP	0.266	0.057	2.870	0.006	0.051	0.275	Accepted

AC=Adhocracy culture CC=Clan Culture, HC=Hierarchy Culture, MC=Market culture OI=Open innovation OP=Organizational Performance

Adhocracy Culture and Organizational Performance (H_3)

The hypothesis (H_3) states, "Adhocracy culture positively affects organizational performance." According to the structural model, the path coefficient for AC→OP was reported as 0.411, with a t-value of 3.878, which is higher than the threshold value of 1.99. The p-value was reported as 0.000, which is considered significant at any value lower than 0.05. The empirical results indicated that the hypothesis H_3 is accepted, establishing a positive relationship between adhocracy culture and organizational performance. To support the finding that "adhocracy culture positively affects organizational performance," several recent studies have reported similar results. Mousavi et al. (2021) found that adhocracy culture, which promotes innovation, flexibility, and risk-taking, positively influences organizational performance, especially in industries that prioritize innovation and adaptability. Tran and Le (2022) observed that organizations with adhocracy cultures are better equipped to respond to market changes and foster creativity, leading to enhanced performance. Furthermore, Park et al. (2023) demonstrated that adhocracy culture enhances employee empowerment and innovation, which are critical drivers of organizational success in competitive environments.

Market Culture and Organizational Performance (H_4)

The hypothesis (H_4) states, "Market culture positively affects organizational performance." The results from Table 4.1 show that the path coefficient for MC→OP was reported as 0.266, with a t-value of 2.870, which exceeds the threshold value of 1.99. The p-value was reported as 0.006, which is considered significant at any value lower than 0.05. The empirical results indicated that the hypothesis H_4 is accepted, establishing a positive relationship between market culture and organizational performance. The same research has also been recorded by Kumar et al. (2021) discovered that organizations with a market culture, which emphasizes competition, results, and goal achievement, often experience enhanced performance due to their strong focus on efficiency and external positioning. Ali and Hussain (2022) similarly noted that market culture drives organizations to prioritize profitability and market share, which directly contributes to improved performance metrics. Singh and Mehta (2023) also concluded that organizations with a market-oriented culture tend to outperform competitors, as they focus on measurable outcomes, accountability, and customer satisfaction, leading to higher overall organizational success.

In summary, the study found that hierarchy culture negatively impacts organizational performance, while both adhocracy and market cultures positively influence it. However, clan culture showed no significant effect on organizational performance.

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Conclusion And Recommendation

Over decades of empirical research, scholars have consistently found links between organizational culture and organizational performance. Organizational culture, defined as the shared values, beliefs, and assumptions within an organization (Miron, Erez, and Naveh, 2004), is crucial in shaping communication, mutual understanding, and employee behavior. The current study aimed to investigate the effects of different types of organizational culture on organizational performance within the Malaysian automotive industry. Specifically, it tested hypotheses regarding the impact of hierarchy, clan, adhocracy, and market cultures on performance outcomes. The study confirmed that hierarchy culture negatively impacts organizational performance, aligning with previous findings (Han, 2012). The hierarchical structure, with its focus on internal integration and bureaucratic processes, often hinders adaptability and responsiveness to external changes, making it less effective in dynamic environments (Denison and Mishra, 1995). Conversely, the study found a positive relationship between adhocracy culture and organizational performance, consistent with earlier research (Fey and Denison, 2003). Adhocracy culture, characterized by flexibility, creativity, and a focus on external adaptation, supports innovation and responsiveness, directly enhancing performance.

The study contributes significantly to the existing literature on organizational behavior by highlighting the distinct impacts of different cultural types on organizational performance. While the general consensus in literature supports the influence of culture on performance (Hofstede, 1980; Martins and Terblanche, 2003), this study adds nuance by showing that not all cultural types are equally beneficial. The findings reinforce the dynamic capabilities theory, which emphasizes the need for organizations to optimize internal capabilities to maintain a competitive advantage. In this context, cultures that encourage innovation and adaptability, like adhocracy, are more likely to enhance performance, particularly in fast-changing industries.
For managers in the Malaysian automotive industry, the study underscores the importance of cultivating an organizational culture that supports performance. The findings suggest that managers should prioritize flexibility and external focus within their organizational culture to foster innovation and improve performance outcomes. Specifically, managers should be cautious of maintaining a rigid hierarchy culture, which could stifle innovation and responsiveness. Instead, promoting elements of adhocracy culture, such as encouraging creativity, risk-taking, and entrepreneurial thinking, may lead to better performance in dynamic markets. Despite its contributions, the study has several limitations. First, it focused on a limited sample size from the Malaysian automotive industry, which may affect the generalizability of the findings. The study's cross-sectional design also limits its ability to capture changes over time, suggesting that a longitudinal study could provide more comprehensive insights. Additionally, the study examined organizational culture and performance within a specific geographic and industry context, meaning the results may not be directly applicable to other industries or countries with different cultural and economic conditions.

Future research could build on this study by exploring the relationship between organizational culture and performance in other industries and geographic contexts. It would be valuable to test the effects of different cultural types on performance in industries that face different environmental pressures than the automotive sector. Additionally, future studies should consider using a larger sample size and a longitudinal design to enhance the robustness and generalizability of the findings. Research could also delve into the multidimensional aspects of

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EISSN : 0128-164X
Volume 9 Issue 55 (September 2024) PP. 810-824
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organizational culture, examining how different combinations of cultural attributes influence performance.

Conclusion

This study has provided important insights into the relationship between organizational culture and organizational performance, particularly within the context of the Malaysian automotive industry. It confirmed that not all cultural types are equally beneficial for performance, with hierarchical cultures potentially hindering adaptability and innovation, while adhocracy cultures enhance performance by fostering creativity and responsiveness. The findings underscore the importance of aligning organizational culture with strategic goals to optimize performance. Future research should continue to explore these relationships in different contexts to deepen our understanding of how culture shapes organizational success.

Acknowledgements

The authors would like to thank the editor and the two anonymous reviewers

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